FIRST SUPPLEMENT TO THE OFFICIAL STATEMENT

COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission

$182,845,000
Revenue Refunding Bonds,
Project No. 84

Dated: March 23, 2005

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INTRODUCTION

This First Supplement to the Official Statement of the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), supplements and amends the information provided in the Official Statement dated March 1, 2005 (the "Official Statement"), relating to its $182,845,000 Revenue Refunding Bonds, Project No. 84 (the "Bonds"). This First Supplement to the Official Statement should be read together with the Official Statement. Capitalized terms not otherwise defined herein shall have the meanings given them in the Official Statement.

The information set forth under the headings "BUDGETARY PROCESS IN THE COMMONWEALTH" and "THE COMMONWEALTH - Fiscal Year 2005 (Unaudited) and - State Tax Law Changes and State Budget" is additional information. The information set forth under the heading "THE STATE PROPERTY AND BUILDINGS COMMISSION – Future Financings" and in the first full paragraph appearing after subparagraph (c) under "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Resolution - *Events of Default*" replaces, in its entirety, the information set forth under that heading and in that paragraph in the Official Statement.

BUDGETARY PROCESS IN THE COMMONWEALTH

The 2005 Kentucky General Assembly enacted a State Budget on March 21, 2005 (the "State Budget"), which (i) incorporates the quarterly State Budget Continuation Plans that authorized the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims made by the Executive Branch of government to continue the operation of state government in the absence of a legislatively adopted State Budget ("Continuation Plans") and (ii) appropriates funds for the remainder of the biennium. In addition, oral arguments regarding the legality of the Continuation Plans have been heard by the Kentucky Supreme Court.

THE STATE PROPERTY AND BUILDINGS COMMISSION

Future Financings

The 2005 Kentucky General Assembly authorized a substantial capital plan with $1.906 billion of new debt to be financed by the Commonwealth. Bond projects supported by the General Fund exceed $1.204 billion while Agency Restricted Fund and Road Fund supported bonds total $252 million and $450 million, respectively. The bonds are to fund a variety of capital investments in higher education, infrastructure, major maintenance and technology based projects for various state agencies. Additionally, $150 million in federal fund supported Grant Anticipation Revenue Vehicle (GARVEE) bonds have been authorized.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets. Bonds may also be issued to refund outstanding bonds that are appropriation supported.

THE COMMONWEALTH

Fiscal Year 2005 (Unaudited)

Fiscal Year 2005 General Fund revenues from July 2004 through February 2005 totaled $4,914.7 million versus $4,549.7 million for the same period one year ago, which represents an 8.0 percent increase. The forecasted growth rate for fiscal year 2005 by Consensus Forecasting Group (the "Group"), during January 2005 prior to the 2005 Tax Act, was 6.5 percent. Based upon year-to-date growth, the General Fund must expand by 3.7 percent for the remaining four months of the fiscal year to meet the original estimate.

February 2005 receipts were $509.3 million or 5.9 percent higher than February 2004 receipts of $480.9 million. Among the major categories, the sales and use tax receipts grew by 7.5 percent, property tax receipts increased 28.7 percent and coal severance receipts rose 23.8 percent. Individual income tax receipts were also up 6.6 percent. Corporate income tax receipts were significantly higher and lottery revenue was much lower for the month as compared to February 2004.

State Tax Law Changes and State Budget

Governor Fletcher signed the *JOBS for Kentucky* tax modernization bill into law on March 18, 2005 (the "2005 Tax Act"). Passage of the bill was the culmination of a year-long effort to restructure Kentucky's tax laws to make the Commonwealth more competitive and to attract and retain human capital. The tax modernization plan is essentially revenue-neutral over a period of four years. It is designed to reduce income taxes for a majority of Kentuckians, broaden the base and lower the rates for business taxes and export some of the business tax burden to non-residents.

The two largest components of the tax modernization bill are in the area of individual income taxes and business taxes. The top marginal tax rate for middle income individuals has been cut from 6% to 5.8% while those earning more than $75,000 will continue to be taxed at 6.0% on income over $75,000. The state low-income credit has been expanded substantially. As a result approximately 496,000 Kentuckians will no longer owe any state income tax. The most significant change in business taxes is the repeal of the corporation license tax and the lowering of the top marginal rate from 8.25% to 6.0% over the course of two years.

In addition to the rate reductions, measures were taken to significantly broaden the tax base, especially in the area of corporation income tax. The definition of corporation now includes limited liability entities, some of which were able to utilize aggressive tax planning in the old tax regime to mitigate or eliminate their Kentucky tax burden. Moreover, an alternative minimum calculation, with a base of gross receipts, was added which further broadens the tax base to collect taxes from companies that do not show an accounting profit. The tax base was also broadened for the individual income tax by capping the pension exclusion. All of these measures are intended to add elasticity and stability into the tax system to counteract the rate reductions.

Other changes in tax law include an increase of taxes on cigarettes from 3 cents to 30 cents per pack; an increase of wholesales taxes on alcohol products; a restructuring of communications industry taxes; and the institution of a lodging tax for tourism development. The plan establishes several initiatives to promote economic growth. These include redirection of horse breeding fees to dedicated funds for preservation of the equine breeding industry in Kentucky; tax credits for postsecondary education tuition and historic preservation, and various economic development incentives linked to the environment and job creation.

Revenue estimates issued by the Group, described under the heading "Fiscal Year 2005 (Unaudited)" above, were subsequently revised by staff to the General Assembly to reflect the changes resulting from the 2005 Tax Act.

Total appropriations for the State Budget are $7.5 billion for fiscal year 2005 and $8.1 billion for fiscal year 2006 and were based upon revenues estimated to be available upon implementation of the 2005 Tax Act. Highlights of the 2004-2006 State Budget include significant General Fund increases for Medicaid over fiscal year 2004 levels of $93.7 million and $163.7 million in fiscal years 2005 and 2006 respectively. Postsecondary education received an increase in funding of $81.6 million, a 9 percent increase; K-12 received a $524 million increase in funding, a 16.8 percent increase in fiscal year 2006 as compared to fiscal year 2004. With the exception of health insurance costs, most agencies' operating budgets were held to fiscal year 2004 levels, which were twice reduced. Phase II tobacco payments to tobacco farmers, in the amount of $114 million, will be made partially from General Fund bonds identified above in Future Financings and from Kentucky's revenue from the Master Settlement Agreement with cigarette manufacturers.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The Resolution

Events of Default. The first full paragraph appearing after subparagraph (c) under the sub – heading *"Events of Default"* in the original Official Statement is deleted in its entirety and replaced with the following paragraph:

The Resolution, as modified by the Commitment, provides that, subject to the right of the Bond Insurer, acting alone, to direct such action, upon the happening and continuance of any event of default described in clause (a) or (b) above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the aggregate principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the aggregate principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will ipso facto be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

OTHER MATTERS

Charles F. Bell, Jr., Executive Director of the Office of Financial Management and Secretary to the Commission on the date of the Official Statement, has resigned and is no longer serving in those capacities. This First Supplement to the Official Statement has been prepared under the direction of the Office of Financial Management and the Executive Director of the Commission.

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. The information included in this First Supplement to the Official Statement is only intended to supplement the information contained in the Official Statement. Reference is made to the Official Statement for material information relating to the Bonds.

This First Supplement to the Official Statement has been approved, and its execution and delivery have been authorized, by the Commission.

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: /s/ R.B. Rudolph, Jr.
Executive Director of the Commission
(Secretary to the Finance and Administration Cabinet)

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